Report

of the

Examination of

Dean Health Plan, Inc.

Madison, Wisconsin

As of December 31, 2004

**TABLE OF CONTENTS**

**State of Wisconsin** / OFFICE OF THE COMMISSIONER OF INSURANCE

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January 13, 2006

Honorable Jorge Gomez
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

DEAN HEALTH PLAN, INC
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Dean Health Plan, Inc., (the company or DHP) was conducted in 2002 as of December 31, 2001. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Provider Contracts
Territory and Plan of Operations
Affiliated Companies
Growth of the Company
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

Dean Health Plan, Inc., is described as a for-profit group model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the group model, the company contracts with a sponsoring clinic to provide primary care and specialist services. HMOs compete with traditional fee-for-service health care delivery.

The company was incorporated August 22, 1983, and commenced business January 1, 1984. Concurrent with the incorporation, the company assumed the assets, liabilities, and contractual obligations of the then existing Dean Health Plan Insurance Corporation (a ch. 613, Wis. Stat., service corporation). The company became a for-profit corporation on October 1, 1985.

Prior to July 1, 1995, DeanCare Partnership owned 100% of the common stock of Dean Health Plan, Inc. Effective July 1, 1995, DeanCare Partnership sold 47% of this common stock to SSM Health Care and exchanges 53% of this common stock for Dean Health Systems, Inc., Class R preferred stock which was distributed to the partners. As a result, Dean Health Systems, Inc., and SSM Health Care owned 100% of the common stock of Dean Health Plan, Inc.

In August 1995, Dean Health Plan, Inc., incorporated a wholly owned subsidiary, Premier Medical Insurance Group, Inc. (Premier). On November 14, 1995, Premier formed its own wholly owned subsidiary, Dean Health Acquisition Company. Effective January 1, 1996, DHP merged with Dean Health Acquisition Company. DHP stock was converted into stock of Premier and the common stock of Premier owned by DHP was canceled. Concurrent with the reorganization, Dean Health Plan Acquisition Company changed its name to Dean Health Plan, Inc. As a result of these transactions, DHP became a wholly owned subsidiary of Premier which is 53% owned by Dean Health Systems, Inc., and 47% owned by SSM Health Care, Inc.

(SSMHC). In conjunction with the reorganization, 1,500 shares of preferred stock of DHP were converted to 1,500 shares of preferred stock of Premier. The Dean Foundation for Health, Research and Education, Inc., owned the 1,500 shares of preferred stock of Premier until September 6, 2000, when Premier redeemed all 1,500 shares of stock. On July 12, 2005, Premier changed its name to Dean Health Insurance, Inc. (DHI).

The company provides all primary and specialty care services to enrollees through a service agreement with one of its parents, Dean Health Systems, Inc. (DHS). DHS owns and operates Dean Physician Practice Association. All primary and specialty care services, which are not available through DHS, are subcontracted to other clinics and physicians. DHS and subcontracted clinics and physicians provide primary and specialty care services to enrollees through a network of approximately 2,000 physicians.

Enrollees under the HMO basic health benefit plan are required to choose a primary care physician (PCP). It is through this primary care physician that all health services are coordinated. However, if the member goes to another Dean Health Plan provider, they can receive services without a referral as long as the service doesn't require a prior authorization. Referrals to nonplan providers must be prior authorized before services are received. Other than emergency or urgent services, the company will not pay for medical care benefits when services are provided by nonplan providers without a written prior authorized referral.

DHS and SSM Health Care of Wisconsin, Inc., (SSMWI) a subsidiary of SSMHC, assume all actuarial risk of furnishing covered services to HMO members. As compensation for all provider services, the company pays a capitation to DHS and SSMWI. The capitation is calculated as a percentage of the premium charged to policyholders. The capitation gets modified prospectively on an annual basis for the following year. During the year, capitation payments are made to a physicians' fund and a nonphysicians' fund. The contract between DHP, DHS, and SSMWI was effective on July 1, 1995, and terminates December 31, 2010. The contract may be terminated for breach of material provision following a 30-day written notice by the terminating party. The contract with DHS has no withhold provisions.

DHS and subcontracting providers are required to provide medical services on a 24-hour basis. DHS currently subcontracts with approximately 200 independent practice associations (IPAs) and clinics.

Subcontracting physician providers are subject to withholds and discounts for outpatient and inpatient services. Distribution of such withholds is at the sole discretion of DHS. Contracts between DHS and subcontracting providers are generally a one-year term and may be terminated by either party for breach of material provision upon 30 days' written notice. DHS may terminate the contract without advance notice for gross misconduct of a provider. The contracts include hold-harmless provisions for the protection of policyholders.

As earlier discussed, the company provides all covered medical services, including hospital services, to enrollees through a service agreement with DHS and SSMWI. SSMWI was assigned the rights under this contract effective January 1, 2000, from SSM Health Care (SSMHC). SSMWI directly owns and operates St. Marys Hospital Medical Center in Madison, Wisconsin. All inpatient services, which are not available through SSMWI, are subcontracted to other hospital providers. Under the service agreement, the company pays a capitation to DHS and SSMWI. During the year, capitation payments are made to the nonphysicians' fund, a bank deposit account jointly owned by SSMWI and DHS. Claims for services of St. Marys Hospital Medical Center and subcontracted nonphysician providers such as other hospital, chiropractors, pharmacies, and durable equipment providers are paid from the nonphysician fund. Any deficit or surplus is shared 50/50 by both SSMWI and DHS. SSMWI contracts with 28 hospitals. Reimbursements to subcontracting hospitals are based on negotiated discounts or diagnosis-related groups (DRGs). The contracts include hold-harmless provisions for the protection of policyholders.

The following is a list of contracting and subcontracting hospitals:

Aurora Lakeland Medical Center, Elkhorn, WI
Beaver Dam Community Hospital, Beaver Dam, WI
Beloit Memorial Hospital, Beloit, WI
Boscobel Area Health Care, Boscobel, WI
Columbus Community Hospital, Columbus, WI
Divine Savior Hospital, Portage, WI
Edgerton Hospital and Health Services, Edgerton, WI
Finley Hospital, Dubuque, IA

Fort Atkinson Memorial Health Services, Fort Atkinson, WI
Grant Regional Health Center, Inc., Lancaster, WI
Memorial Hospital of Burlington, Burlington, WI
Memorial Hospital of Lafayette County, Darlington, WI
Mercy Hospital of Janesville, Janesville, WI
Moundview Memorial Hospital, Friendship, WI
Oconomowoc Memorial Hospital, Oconomowoc, WI
Reedsburg Area Medical Center, Reedsburg, WI
Richland Hospital, Richland Center, WI
Sauk Prairie Memorial Hospital, Prairie du Sac, WI
Southwest Health Center, Platteville, WI
St. Agnes Hospital, Fond du Lac, WI
St. Clare Hospital & Health Center, Baraboo, WI
St. Josephs Memorial Hospital, Hillsboro, WI
St. Marys Hospital Medical Center, Madison, WI
Stoughton Hospital, Stoughton, WI
The Monroe Clinic, Monroe, WI
Upland Hills Hospital, Dodgeville, WI
Watertown Memorial Hospital, Watertown, WI
Waupun Memorial Hospital, Waupun, WI

According to its business plan at December 31, 2004, the company's service area was comprised of the following counties:

| | | |
|---|---|---|
| Adams | Columbia | Crawford |
| Dane | Dodge | Fond du Lac |
| Grant | Green | Green Lake |
| Iowa | Jefferson | Juneau |
| Kenosha | Lafayette | Marquette |
| Racine | Richland | Rock |
| Sauk | Vernon | Walworth |
| Washington | Waukesha | |

The company offers comprehensive health care coverage which may be changed by riders to include deductibles and co-payments. The following basic health care coverages are provided:

Physician services
Inpatient services
Outpatient services
Emergency and urgent care
Mental health, drug, and alcohol abuse services
Ambulance services
Diagnostic services
Special dental procedures (oral surgery)
Medical supplies, durable and disposable medical equipment
Maternity services
Home health care
Skilled nursing facility
Preventive health services
Family planning

Hearing exams and hearing aids
Insulin and disposable diabetic supplies
Routine eye examinations
Convalescent nursing home service
Outpatient prescription drugs—various co-payment
Cardiac rehabilitation, physical, speech, and/or occupational therapy
Kidney disease treatment
Certain transplants
Chiropractic services

Inpatient mental health and AODA coverage is limited to 10 days, outpatient mental health and AODA coverage is limited to 20 visits, and transitional mental health and AODA coverage is limited to 15 days per benefit year. Emergency services have a co-payment which is waived upon admission into an inpatient facility, and skilled nursing care is limited to 120 days. Plan coverage is contingent on non-emergency services being provided by participating physicians and hospitals or on the referral of participating physicians.

The company also has point-of-service and point-of-enrollment plans. With these plans, an enrollee is not required to choose a primary care provider. Also, an enrollee is not restricted to receiving care from participating providers. DHP provides coverage for all self-referred and out-of-network claims. However, such claims are subject to higher deductibles, coinsurance and require a co-payment up to out-of-pocket maximums. In an effort to control cost, pre-certification is required for elective surgery and hospitalization.

The company began offering a Triple Option Plan in 1999. The triple option plan entitles a member to covered services under three levels of benefits. These are outlined in the group's schedule of benefits. Level one benefits are provided when health care services are obtained through the enrollee's PCP. Level two benefits are provided when an enrollee uses a plan provider to obtain medical services but did not receive an approved referral request from their PCP. Level three benefits are provided when the enrollee uses a non-plan provider. The company has discontinued marketing the Triple Option Plan beginning in 2006.

The company began offering Medicare Senior/Select supplemental coverage in October 1985. The company offers another supplemental product entitled Dean Care Gold that is offered to enrollees who are over the age of 65. The plan started offering this product in 1999. Enrollees are required to choose a PCP. DHP contracts with Centers for Medicare and Medicaid

Services (CMS) to provide a Medicare Cost plan to (Medicare eligible) residents of Dane County. DHP “acts” as a carrier by processing Medicare Part B claims; and DHP also provides additional benefits, including covering members’ cost-sharing amounts. CMS initially pays DHP a per member/per month capitation, then adjusts the amount paid to equal the cost of services provided on an annual basis.

The company has also participated in the Medicaid program since 1996 and in the BadgerCare program since 1999. Both of these programs are administered by the Department of Health and Family Services and provide health care benefits to eligible enrollees on a prepaid basis.

The company currently markets to groups and individuals. The company contracts with outside agencies and pays commissions on new and renewal business. The group business commissions are based on a range of payment schedules: per contract per month, a sliding percentage scale ranging from 0.0625% to 10% or a flat rate based on family size within the group. The individual business commission is paid at a rate of 10% for new and 5% for renewal or a flat rate per enrolled employee based upon the number of employees enrolling.

Premium rates are determined on a variety of actuarial methods based on the size and type of employer group. The company will also use prior year actual expenses per member month for each plan and adjusts for inflation, changes in utilization, changes in enrollment mix, and catastrophic losses. Amounts for administration or reserves are added to the projected medical expense to arrive at the premium.

## III. MANAGEMENT AND CONTROL

**Board of Directors**

The board of directors consists of 11 members. The membership is divided into three groups with staggered expiry term. Per the amended and restated bylaws, annual meetings are to be held each year primarily to elect board of directors to serve a three-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive $3,000 per year for serving on the board, plus $300 for each meeting attended. Finance committee members get an additional $200 per committee meeting attended.

Currently the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|---|---|
| Frank Byrne, M.D.<br>Madison, WI | President and CEO<br>St. Marys Hospital Medical Center | 2006 |
| Mark Covaleski, Ph.D<br>Madison, WI | Professor<br>University of Wisconsin – School of Business | 2006 |
| Daniel T. Danahy, M.D.<br>Middleton, WI | Physician<br>Dean Health Systems, Inc. | 2006 |
| Mary Starmann-Harrison<br>Madison, WI | Chief Executive Officer<br>SSM of Wisconsin | 2006 |
| John Heisler<br>McFarland, WI | Vice President<br>SSM of Wisconsin | 2008 |
| Ralph Kauten<br>Madison, WI | Chief Executive Officer<br>Quintessence Biosciences | 2007 |
| Allen D. Kemp, M.D.<br>Verona, WI | Chief Executive Officer<br>Dean Health Systems, Inc. | 2008 |
| William Schoenhard<br>Kirkwood, MO | Executive Vice President/Chief Operating Officer<br>SSM Health Care Corporation | 2007 |
| Jeffrey Stitgen, M.D.<br>Middleton, WI | Physician<br>Dean Health Systems, Inc. | 2007 |
| William P. Thompson<br>St. Louis, MO | Senior Vice President<br>SSM Health Care | 2008 |
| John A. Vukich, M.D.<br>Madison, WI | Physician<br>Davis Duehr Dean | 2008 |

**Officers of the Company**

The officers appointed by the board of directors and serving at the time of this examination are as follows:

| Name | Office | 2004 Salary |
|---|---|---|
| Robert Palmer | President/Chief Executive Officer | $686,141 |
| Allison Mooney | Secretary/Chief Operating Officer | 326,314 |
| Robert Komula* | Treasurer/Chief Financial Officer | 221,099 |
| Mark Kaufman, M.D. | Chief Medical Officer | 382,969 |
| Thomas Hirsch | Vice President – Medical Affairs | 251,982 |
| Ed Pattarozzi | Vice President – Sales & Marketing | 226,889 |
| Daniel Edge | Vice Presient – Customer Operations | 176,030 |
| Karl Richards | Vice President – Technology & Systems Admin. | 174,802 |

* The Treasurer/Chief Financial Officer position was vacant at the time of the examination.

**Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

**Finance Committee**
Jeffrey Stitgen, M.D., Chair
Mark Covaleski, Ph.D.
John Vukich, M.D.
Ralph Kauten
Mary Starmann-Harrison
Robert Palmer
Allen D. Kemp, M.D.
Steve Caldwell
Allison Mooney

**Senior Management Committee**
Robert Palmer, Chair
Mark Kaufman, M.D.
Robert Komula
Allison Mooney
Ed Pattarozzi
Daniel Edge
Thomas Hirsch, M.D.
Karl Richards
J.C. McWilliams

**Board Compensation Committee**
Jeffrey Stitgen, M.D., Chair
Allen D. Kemp, M.D.
Mary Starmann-Harrison
Mark Covaleski, Ph.D.

**Credentialing Committee**
William Koller, M.D., Chair
Peter Clagnaz, M.D.
Mark McDade, M.D.
Paul Reber, D.O.

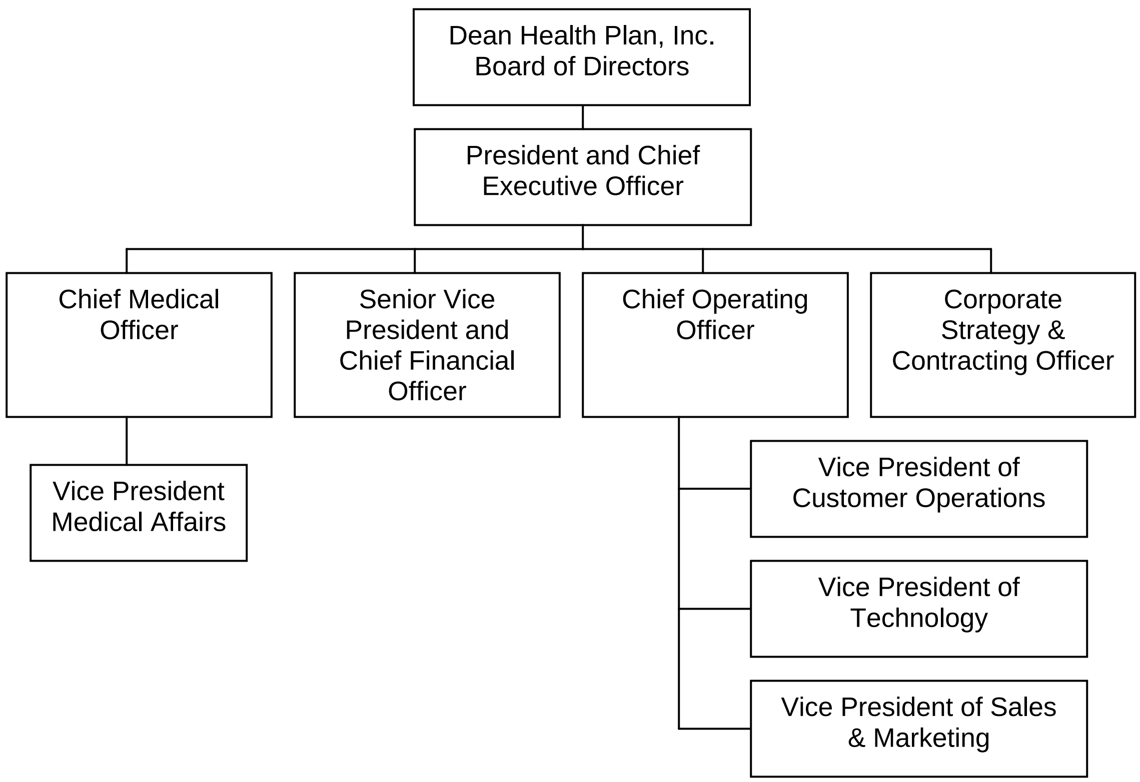
**Quality Improvement Committee**
Thomas Hirsch, M.D., Chair
Mark Kaufman, M.D.
Robert Palmer
Don Logan, M.D.
Tim Lechmaier, M.D.
Mary Dominski, M.D.
Nevin Olson
Andy Kosseff, M.D.
Pat Neely, RN
Peter Clagnaz, M.D.
Paul Reber, M.D.
David Hahn, M.D.
Allison Mooney
Chirs Baker, RN
Megan Hawkos
Sandy Zietlow

**Medical Peer Review Committee**
Thomas Hirsch, M.D., Chair
Mark A. Kaufman, M.D.
William Koller, M.D.
Peter Clagnaz, M.D.
Paul Reber, D.O.
Mark McDade, M.D.

**Utilization Management Committee**
William S. Koller, M.D., Chair
Mark A. Kaufman, M.D.
Peter Clagnaz, M.D.
Paul Reber, D.O.
Thomas Hirsch, M.D.
Nevin Olson
Julie Pofahl
Mary Umbeck
Tim Connor, R.Ph.
Kenneth Valyo, D.O.
Becci Wiegand, R.N.
Jennifer Close-Goedgen

The organization and principal officers of the company are reflected in the chart below. The company has its own employees. In addition, certain support services are provided by employees of the parent company, DHS. The IT services would include Help Desk and security support.

Dean Health Plan, Inc.
Organizational Chart



**Financial Requirements**

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

| | Amount Required |
|---|---|
| 1. Minimum capital or permanent surplus | Either: $750,000, if organized on or after July 1, 1989<br>or<br>$200,000, if organized prior to July 1, 1989 |
| 2. Compulsory surplus | The greater of $750,000 or:<br><br>If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months;<br><br>If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months |
| 3. Security surplus | The greater of:<br>140% of compulsory surplus reduced by 1% of compulsory surplus for each $33 million of additional premiums earned in excess of $10 million<br>or<br>110% of compulsory surplus |
| 4. Operating funds | Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus |

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;

2. One-third of 1% of premium written in this state in the preceding calendar year.

The company has satisfied this requirement for 2004 with a deposit of $6,450,000 with the State Treasurer.

**Insolvency Protection for Policyholders**

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and

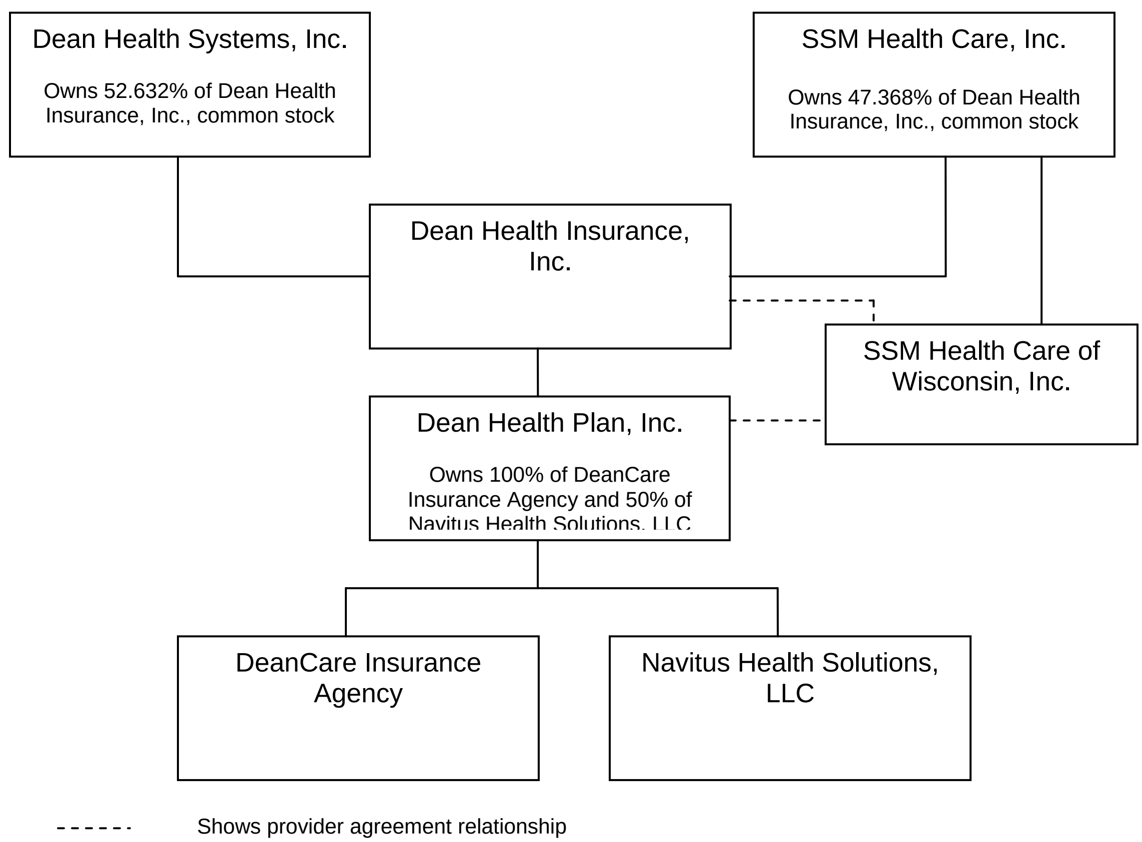
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

DHP has met this requirement by amending its service agreement with DHS and SSMWI Healthcare effective January 1, 2000. If the company shall become insolvent, DHS and SSMWI shall assure the covered services continue to be furnished to enrollees as provided under s. Ins 9.04, Wis. Adm. Code.

## IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Dean Health Systems, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

**Holding Company Chart**
**As of December 31, 2004**




**Dean Health Systems, Inc.**

Dean Health Systems, Inc., (DHS) and subsidiaries is a health care delivery system that provides health care services and coverage, primarily to the residents of southern Wisconsin. DHS owns 52.632% of Dean Health Insurance, Inc., the parent of DHP. Prior to 1995, DHS's legal name was Dean Medical Center, S.C., but the organization still uses the name "Dean Medical Center" for marketing purposes. DHS is owned by over 250 physicians with a 5% ownership by SSM Health Care Corporation. As of December 31, 2004, the Dean Health

Systems, Inc., audited financial statement reported assets of $333 million, liabilities of $252 million, and net worth of $81 million. Operations for 2004 produced net income of $6.35 million.

**Dean Health Insurance, Inc.**

Dean Health Insurance, Inc., (DHI) (f/k/a Premier Medical Insurance Group, Inc.) was incorporated as a wholly owned subsidiary of Dean Health Plan, Inc., effective January 1, 1996, following a reorganization within members of the holding company, DHP became a wholly owned subsidiary of DHI, which is a wholly owned subsidiary of Dean Health Systems, Inc. DHI is a Wisconsin-domiciled life and accident and health insurer. As of December 31, 2004, DHI's annual statement reported assets of $50.6 million, liabilities of $0.3 million, and capital and surplus of $50.3 million. Operations for 2004 produced net income of $32,000.

**SSM Health Care, Inc.**

SSM Health Care, Inc., (SSMHC) is a not-for-profit corporation. SSMWI is one of the primary corporations included within the SSM Health Care System which is sponsored by the Franciscan Sisters of Mary. SSMHC acquired ownership of 47.368% of DHI's issued and outstanding common stock in 1995. SSMHC ultimately owns and operates St. Marys Hospital Medical Center in Madison. As of December 31, 2004, SSM Health Care System's audited financial statement reported assets of $3 billion, liabilities of $1.5 billion, and net worth of $1.5 billion. Operations for 2004 produced net income of $131 million.

**Dean Insurance Agency, Inc.**

Dean Insurance Agency, Inc., (DIA) is a wholly owned subsidiary of DHP. DIA markets insurance coverages to supplement the HMO products marketed by DHP. As of December 31, 2004, the DIA's GAAP financial statements reported assets of $675,000, liabilities of $0, and net worth of $675,000. DIA did not have any operations during 2004. Net income was reported at $54,000; which resulted from investment income.

**Navitus Health Solutions, LLC**

Navitus Health Solutions, Inc., (Navitus) is owned 50% by DHP and 50% by PBM Ventures, LLC. Navitus provides pharmacy benefit management services to DHP. As of

December 31, 2004, the audited financial statements reported assets of $48.8 million, liabilities of $48.1 million, and net worth of $0.7 million. Operations for 2004 produced net income of $1.8 million.

**Affiliated Agreements**

Dean Health Plan, Inc., has entered into numerous affiliated agreements. These agreements are described below:

- Effective July 1, 1995, the company entered into a service agreement with DHS and SSMHC for the provision of covered services to its members. This agreement is discussed in the section of this report captioned "History and Operations."

- Effective September 8, 1995, DHP entered into an agreement to provide DHI administrative services. These services include use of Facilities, Insurance Administration, Indemnity of Claims, HMO Provider Agreements, Miscellaneous Policyholder Materials and Business Administration. DHI will pay DHP for actual out-of-pocket expenses until such a time when DHI has 1,700 insureds. When DHI exceeds 1,700 insureds, DHI shall pay DHP a mutually agreed monthly sum per insured calculated as DHP's average pmpm administrative expenses. Right to offset language is included in the contract.

- Effective November 1, 2004, the company entered into an affiliated service agreement with DHS for certain services and use of certain facilities and equipment from DHS. DHP may request services from one or more of DHS employees at any time during the agreement. Compensation will be paid to DHS from DHP. In order to facilitate this agreement, the company has entered into the following subcontracts with DHS:
  - Nurse Triage Services Agreement, in which DHS will provide all of DHP and DHI enrollees a 24-hour phone nurse advice line known as "Dean On Call."
  - Pharmacy Services Agreement, in which DHS will provide pharmaceutical and support services for DHP and DHI.
  - Medical Director Services Agreement, in which DHS will provide Medical Director Services to DHP and DHI.
  - Health Works Agreement, in which DHS has agreed to operate a comprehensive community health and education program. St. Marys and DHP each desire to benefit from Health Works by utilizing available services, facilities and equipment.
  - Behavioral Health Agreement, in which DHS will work with the Behavioral Health Assistant Medical Director to develop the highest quality and cost-effective care management system for members.

- Effective January 1, 1997, DHP entered into a tax allocation agreement with DHI and DIA. DHI shall file a consolidated tax return on behalf of all parties. The tax liability shall be apportioned among all members of the affiliated group in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of the group having tax liability bears to the consolidated tax return based on separate return calculations with current credit for net losses.

- Effective January 1, 2004, DHP and DHI entered into a pharmacy benefit administration agreement with Navitus. Navitus shall provide services related to pharmacy management and claims processing for enrollees.

## V. REINSURANCE AND CORPORATE INSURANCE

The company does not have a reinsurance contract. Insolvency provisions are included in the company's service agreement with DHS and SSMWI as discussed in the section captioned "Insolvency Protection for Policyholders."

The company is provided with corporate insurance coverage under the contracts listed below:

| Type of Coverage | Policy Limits |
|---|---|
| Boiler and Machinery | $100,000,000 combined limit |
| Fiduciary Responsibility | 10,000,000 annual aggregate |
| Directors' and Officers' Liability | 15,000,000 each policy year |
| Worker's Compensation | statutory |
| Employers' Liability | 500,000 policy limit |
| Professional Liability | 10,000,000 each claim |
| | 10,000,000 annual aggregate |
| Excess Professional Liability | 1,000,000 each claim |
| | 3,000,000 annual aggregate |
| Building/Personal Property Blanket | 198,218,000 blanket limit |
| Employee Dishonesty | 1,000,000 limit per occurrence |
| Theft, Disappearance & Destruction (inside) | 100,000 limit per occurrence |
| Theft, Disappearance & Destruction (outside) | 100,000 limit per occurrence |
| Forgery or Alteration | 25,000 limit per occurrence |

DHP and DHI are named as insureds under all the policies except for the professional liability policy, where they are the primary named insurers.

The above coverages were obtained through various insurers which are licensed in Wisconsin.

## VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2004, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

**Dean Health Plan, Inc.**
**Assets**
**As of December 31, 2004**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $28,060,003 | $ | $28,060,003 |
| Stocks: | | | |
| Common stocks | 12,665,902 | | 12,665,902 |
| Real estate: | | | |
| Properties occupied by the company | 6,482,347 | | 6,482,347 |
| Properties held for sale | 3,808,891 | | 3,808,891 |
| Cash, cash equivalents and short-term investments | 21,754,948 | | 21,754,948 |
| Other invested assets | 252,963 | | 252,963 |
| Investment income due and accrued | 366,760 | | 366,760 |
| Uncollected premiums and agents' balances in the course of collection | 4,633,134 | (60,832) | 4,693,966 |
| Net deferred tax asset | 3,817,609 | 781,246 | 3,036,363 |
| Guaranty funds receivable or on deposit | | | |
| Electronic data processing equipment and software | 3,106,367 | 1,921,349 | 1,185,018 |
| Furniture and equipment, including health care delivery assets | 100,567 | 100,567 | |
| Receivables from parent, subsidiaries and affiliates | 1,278,734 | 1,278,734 | |
| Health care and other amounts receivable | 3,020,102 | 399,505 | 2,620,597 |
| Other assets nonadmitted | | | |
| Aggregate write-ins for other than invested assets | 1,454,706 | 1,454,706 | |
| Total assets | $90,803,033 | $5,875,275 | $84,927,758 |

**Dean Health Plan, Inc.**
**Liabilities and Net Worth**
**As of December 31, 2004**

| | | |
|---|---|---|
| Claims unpaid | | $ 2,890,178 |
| Premiums received in advance | | 23,219,958 |
| General expenses due or accrued | | 9,875 |
| Current federal and foreign income tax payable and interest thereon | | 863,858 |
| Amounts withheld or retained for the account of others | | 1,596,740 |
| Amounts due to parent, subsidiaries and affiliates | | 5,785,586 |
| Aggregate write-ins for other liabilities [including $(1) current] | | 9,309,530 |
| Total liabilities | | 43,675,725 |
| Common capital stock | $ 175,000 | |
| Unassigned funds (surplus) | 41,077,033 | |
| Total capital and surplus | | 41,252,033 |
| Total liabilities, capital and surplus | | $84,927,758 |

## Dean Health Plan, Inc.
## Statement of Revenue and Expenses
## For the Year 2004

| | | |
|---|---|---|
| Net premium income | | $598,952,255 |
| Total revenues | | |
| Medical and hospital: | | |
| Hospital/medical benefits | $359,766,638 | |
| Other professional services | 6,556,565 | |
| Emergency room and out-of-area | 47,332,996 | |
| Prescription drugs | 48,831,033 | |
| Aggregate write-ins for other medical and hospital | 99,083,200 | |
| Total medical and hospital | 561,570,432 | |
| Non-health claims | | |
| Claims adjustment expenses | 3,273,703 | |
| General administrative expenses | 36,563,263 | |
| Total underwriting deductions | | 601,407,398 |
| Net underwriting gain or (loss) | | (2,455,143) |
| Net investment income earned | 1,712,204 | |
| Net realized capital gains or (losses) | 1,534,240 | |
| Net investment gains or (losses) | | 3,246,444 |
| Aggregate write-ins for other income or expenses | | 230,532 |
| Net income or (loss) before federal income taxes | | 1,021,833 |
| Federal and foreign income taxes incurred | | 825,015 |
| Net income (loss) | | $ 196,818 |

## Dean Health Plan, Inc.
## Capital and Surplus Account
## As of December 31, 2004

| | | |
|---|---|---|
| Capital and surplus prior reporting year | | $40,738,020 |
| Net income or (loss) | $ 196,818 | |
| Net unrealized capital gains and losses | (792,430) | |
| Change in net deferred income tax | 951,344 | |
| Change in nonadmitted assets | 158,280 | |
| Net change in capital and surplus | | 514,012 |
| Capital and surplus end of reporting year | | $41,252,032 |

**Dean Health Plan, Inc.**
**Statement of Cash Flows**
**As of December 31, 2004**

| | | | |
|---|---|---|---|
| Premiums collected net of reinsurance | | | $594,340,677 |
| Net investment income | | | 2,078,377 |
| Miscellaneous income | | | (598,458) |
| Total | | | 595,820,596 |
| Less: | | | |
| Benefit- and loss-related payments | | $558,107,304 | |
| Net transfers to separate, segregated accounts and protected cell accounts | | | |
| Commissions, expenses paid and aggregate write-ins for deductions | | 34,973,855 | |
| Dividends paid to policyholders | | | |
| Federal and foreign income taxes paid (recovered) $0 net tax on capital gains (losses) | | 1,580,899 | |
| Total | | | 594,662,058 |
| Net cash from operations | | | 1,158,538 |
| Proceeds from investments sold, matured or repaid: | | | |
| Bonds | $ 9,835,776 | | |
| Stocks | 2,655,909 | | |
| Total investment proceeds | | 12,491,685 | |
| Cost of investments acquired - long-term only: | | | |
| Bonds | 10,722,736 | | |
| Stocks | 3,523,280 | | |
| Real estate | 15,601 | | |
| Total investments acquired | | 14,261,617 | |
| Net cash from investments | | | (1,769,932) |
| Cash provided/applied: | | | |
| Other cash provided (applied) | | | 6,048,392 |
| Net change in cash and short-term investments | | | 5,436,998 |
| Beginning of year (cash and short-term investments) | | | 16,317,950 |
| End of year (cash and short-term investments) | | | $ 21,754,948 |

**Growth of Dean Health Plan, Inc.**

| Year | Assets | Liabilities | Capital and Surplus | Premium Earned | Medical Expenses Incurred | Net Income |
|---|---|---|---|---|---|---|
| 2004 | $84,927,758 | $43,675,725 | $41,252,033 | $598,952,255 | $561,570,432 | $ 196,818 |
| 2003 | 76,430,223 | 35,692,203 | 40,738,020 | 592,678,100 | 553,787,961 | 1,820,390 |
| 2002 | 99,390,034 | 60,260,989 | 39,129,045 | 529,037,022 | 492,607,714 | 2,212,761 |
| 2001 | 89,283,305 | 52,885,725 | 36,397,580 | 448,847,319 | 424,806,596 | 2,706,396 |

| Year | Profit Margin | Medical Expense Ratio | Administrative Expense Ratio | Change in Enrollment |
|---|---|---|---|---|
| 2004 | 0.0% | 93.8% | 6.7% | -0.7% |
| 2003 | 0.3 | 93.4 | 6.4 | 1.9 |
| 2002 | 0.4 | 93.1 | 6.5 | 5.9 |
| 2001 | 0.4 | 93.2 | 6.7 | 4.9 |

**Enrollment and Utilization**

| Year | Enrollment | Hospital Days/1,000 | Average Length of Stay |
|---|---|---|---|
| 2004 | 214,373 | 296.24 | 3.3 |
| 2003 | 215,912 | 263.90 | 3.2 |
| 2002 | 211,871 | 281.13 | 3.3 |
| 2001 | 200,029 | 275.97 | 3.2 |

**Per Member Per Month Information**

| | 2004 | 2003 | Percentage Change |
|---|---|---|---|
| **Premiums:** | | | |
| Commercial | $244.88 | $238.72 | 2.6% |
| Medicare | 183.77 | 179.01 | 2.7 |
| Medicaid | 142.62 | 135.24 | 5.5 |
| **Expenses:** | | | |
| Hospital/medical benefits | 141.57 | 132.98 | 6.5 |
| Other professional services | 2.58 | 3.97 | -34.9 |
| Emergency room and out-of-area | 18.63 | 17.70 | 5.2 |
| Prescription drugs | 19.22 | 26.93 | -28.6 |
| Other medical and hospital | 38.99 | 32.93 | 18.4 |
| Total medical and hospital | 220.99 | 214.50 | 3.0 |
| Claims adjustment expenses | 1.29 | 1.05 | 22.9 |
| General administrative expenses | 14.39 | 13.59 | 5.9 |
| Total underwriting deductions | $236.66 | $229.14 | 3.3 |

The company has reported favorable results for the four-year period presented above. Assets have decreased slightly by 4.9% while capital and surplus has increased 13.3% over the same three-year period. Premiums have increased 33.4% since 2001 as a result of increased premium rates and a 7.2% increase in enrollment. DHP's medical and administrative expense ratios have remained consistent during the examination period at around 93% and 6%, respectively. The consistency of the company's medical and administrative expense ratios is the result of its service agreement with DHS and SSMWI.

**Reconciliation of Capital and Surplus per Examination**

The examination made no adjustments to capital and surplus as reported by Dean Health Plan, Inc., at December 31, 2004. In addition, there were no examination reclassifications.

## VII. SUMMARY OF EXAMINATION RESULTS

**Compliance with Prior Examination Report Recommendations**

There were ten recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Financial Reporting—It is recommended that the company discontinue recording a receivable/liability on the financial statements for premiums billed in advance of the effective date for which the company has not received payment.

   Action—Compliance.

2. Holding Company—It is recommended that the company establish procedures to ensure all material contracts are properly listed on the Form B registration statement.

   Action—Compliance.

3. Premium Receivables—It is recommended that the company nonadmit premium receivables balances over 90 days.

   Action—Compliance.

4. Premium Receivables—It is recommended the company no longer offset its premiums receivables with an allowance.

   Action—Compliance.

5. Health Care Receivables—It is recommended the company continue to re-evaluate their method of reporting health care receivables.

   Action—Compliance.

6. Affiliated Agreements—It is recommended that the company draft formalized affiliated contracts with language indicating the company has the right to offset affiliated balances and submit it to this office within ninety days of adoption of this report.

   Action—Compliance.

7. Articles and Bylaws—It is recommended that the company either abide by or amend its bylaws to reflect its current practices.

   Action—Compliance.

8. EDP Equipment—It is recommended that the company comply with NAIC Annual Statement Instructions for Health Insurers and report EDP equipment on the appropriate line item.

   Action—Compliance.

9. EDP Equipment—It is recommended that the company change their depreciation schedules to comply with SSAP 16.

   Action—Compliance.

10. Fidelity Bond—It is recommended the company increase its level of fidelity coverage to meet the suggested minimum level as provided by the NAIC Financial Examiners Handbook.

    Action—Compliance.

## Summary of Current Examination Results

### Bylaws

The examinations review of the company's board minutes noted that the board approved a resolution to amend its bylaws at its July 2005 meeting. Pursuant to s. 611.62 (4), Wis. Stat., amendments to bylaws shall be filed with the commissioner within 60 days after adoption. The company filed the bylaws with the commissioner in November 2005, well more than 60 days after adoption. It is recommended that the company properly file amendments to its bylaws in accordance with s. 611.62 (4), Wis. Stat.

### Executive Compensation

The examination review of the Report on Executive Compensation (Form OCI 22-060) for 2004 noted that the form is not being completed correctly. For example, the company is required to report all personal compensation paid to officers and employees. It was noted that not all compensation was reported for one of the officers. It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI 22-060).

### Agreements

The review of the company's "Institutional Agency Agreement" with M & I Trust Company noted that this agreement acts as a broker agreement and custody/safekeeping agreement. Therefore, this agreement should contain certain indemnification language as outlined in the NAIC <u>Financial Examiners Handbook</u>. This agreement was missing the following language:

- The custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody except that the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian.
- That in the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

It is recommended the company amend its "Institutional Agency Agreement" to include the proper indemnification language as outlined in the NAIC <u>Financial Examiners Handbook</u>.

The examination's review of DHP's "Pharmacy Benefits Administration" agreement with Navitus Health Solutions, LLC, noted the agreement did not include adequate indemnification clauses. The agreement included language where DHP would hold Navitus harmless for wrongful acts, errors or omission of Navitus or its agents for claims that exceeds the administrative fees paid to Navitus in the first full year of the agreement. The agreement does not provide for any provisions that would limit DHP's liability to Navitus for wrongful acts, errors or omission by DHP or its members but does limit the losses for Navitus to the administrative fees paid in the first full year of the agreement. In order to establish a fair and equitable agreement, the indemnification and hold-harmless provisions should be similar for each party. It is recommended that the "Pharmacy Benefits Administration" agreement with Navitus Health Solutions, LLC, be amended to include fair and equitable indemnification language.

**Record Retention**

The examiners selected a sample of member applications to be reviewed. The company was unable to produce two individual members signed applications from a sample of 45 files. Section Ins 6.80, Wis. Adm. Code, states that the insurer shall maintain various records, including membership information, for the commissioner's review. It is recommended that the company retain original documents relating to insurance in force in accordance with s. Ins 6.80, Wis. Adm. Code.

**Information Systems**

The examination noted that the company does not have a formal periodic policy for monitoring event log activity for its network and firewall. The company identified that this was budgeted for in 2006. Failure to monitor activity increases the potential for unauthorized activity and the company's data to be compromised; therefore, a formal periodic process for monitoring activity on its network and through its firewall should be established. It is recommended that the company implement a formal process to periodically monitor activity on its network and through its firewall.

The company has a plan for recovery of its local hardware and a recovery plan for business functions in the event of a disaster. The plans do not identify an alternative site. The company has indicated that they would rely on affiliates for alternative sites and added that the affiliated agreements include a clause for “other services.” Providing an alternative site in the event of a disaster would likely be more than incidental as suggested by the generic “other services” and should be explicitly addressed through executing a contract or amending its existing contract to address providing an alternative location of the IS and other functions. The company indicated it would be working on enhancing its disaster recovery plans in 2006, including addressing the issue of alternative locations. It is recommended that the company formally execute agreements which provide for a local hot-site for its IT restoration and an alternative site in the event relocation of its offices is necessary. The disaster recovery and business resumption plans should be updated when the agreements are executed.

The examination noted that the company’s business recovery plan for its functional units was reviewed and there was some question whether it contained adequate detail to successfully recover from a disaster. The company was not able to provide evidence of testing the business recovery plan for the functional units to validate whether the plans provided sufficient detail to successfully recover operations in the event of a disaster. It is recommended that the company perform tests of restoration of financially significant business functions at least annually.

The examination noted the company did not have a formal periodic process to review whether active IDs are authorized and their access rights are necessary to perform their functions. An internal audit performed by the company to review access rights identified a large number of discrepancies. As a result of the audit, the company identified that it planned to address the issue in 2006 with an exception reporting process, improving the controls over reviewing access rights for permanent and temporary employees. Validating that all active IDs are authorized is an essential control to ensure the security and integrity of data. It is recommended that the company implement a formal periodic process to validate that all active IDs are authorized.

**Compulsory Surplus Requirement**

As noted in the section of this report captioned "Financial Requirements," HMOs are required to maintain minimum compulsory surplus. The company's calculation as of December 31, 2004, as modified for examination adjustments is as follows:

| | | |
|---|---|---|
| Assets | $ 84,927,758 | |
| Less: | | |
| Special deposit | 5,846,407 | |
| Liabilities | 43,675,725 | |
| Total | | $35,405,626 |
| Net premium earned HMO business | 568,614,804 | |
| Compulsory factor | 3% | |
| Subtotal | 17,058,444 | |
| Net premium earned incidental indemnity premium | 17,874,304 | |
| Compulsory factor | 10% | |
| Subtotal | 1,787,430 | |
| Compulsory surplus | | 18,845,874 |
| Compulsory Excess | | $16,559,752 |

## VIII. CONCLUSION

Dean Health Plan has reported favorable results over the examination period. The company reported assets of $84,927,758, liabilities of $43,675,725, and capital and surplus of $41,252,033 for 2004. Operations for 2004 produced a net income of $196,818.

Dean Health Systems and SSM Health Care of Wisconsin assume all actuarial risk of furnishing covered services to DHP members through a service agreement effective July 1, 1995. This agreement will terminate on December 31, 2010. As compensation for all provider services, the company pays a capitation to DHS and SSMWI. The capitation is calculated as a percentage of the premium charged to policyholders.

The company complied with all of the prior examination recommendations. This examination resulted in nine recommendation regarding bylaws, executive compensation, affiliated agreements, retention of records, and information system security and disaster recovery. There were no adjustments or reclassifications as a result of the examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Bylaws—It is recommended that the company properly file amendments to its bylaws in accordance with s. 611.62 (4), Wis. Stat.

2. Page 27 - Executive Compensation—It is recommended that the company properly include all compensation amounts when completing the Report on Executive Compensation (Form OCI 22-060).

3. Page 27 - Agreements—It is recommended the company amend its “Institutional Agency Agreement” to include the proper indemnification language as outlined in the NAIC Financial Examiners Handbook.

4. Page 28 - Agreements—It is recommended that the “Pharmacy Benefits Administration” agreement with Navitus Health Solutions, LLC, be amended to include fair and equitable indemnification language.

5. Page 28 - Record Retention—It is recommended that the company retain original documents relating to insurance in force in accordance with s. Ins 6.80, Wis. Adm. Code.

6. Page 28 - Information Systems—It is recommended that the company implement a formal process to periodically monitor activity on its network and through its firewall.

7. Page 29 - Information Systems—It is recommended that the company formally execute agreements which provide for a local hot-site for its IT restoration and an alternative site in the event relocation of its offices is necessary.

8. Page 29 - Information Systems—It is recommended that the company perform tests of restoration of financially significant business functions at least annually.

9. Page 29 - Information Systems—It is recommended that the company implement a formal periodic process to validate that all active IDs are authorized.

## X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|---|---|
| Eleanor Oppriecht | Insurance Financial Examiner |
| Glen Navis | Insurance Financial Examiner |
| Randy Milquet | Advanced Examiner – EDP Specialist |

Respectfully submitted,

Amy J. Malm
Examiner-in-Charge